

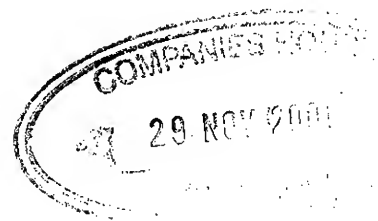


ANDERSEN

SLC Turnberry Limited

Financial statements for the year ended 31 December 2000
together with directors' and auditors' reports

Registered number: SC177810



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Directors' report

For the year ended 31 December 2000

The directors present their report on the affairs of the company together with the financial statements and auditors' report for the year ended 31 December 2000.

Principal activity and business review

The principal activity of SLC Turnberry Limited is the ownership and management of hotel and associated leisure facilities.

Results and dividends

The turnover for the year was £11,948,601 (1999 - £11,929,848) and the loss on ordinary activities after tax was £977,339 (1999 profit - £289,275).

Directors and their interests

The directors of the company during the year were:

T.W. Darnhall

R. F. Cotter (resigned 26 January 2000)

M.P. Wale

S. Selbie (appointed 26 January 2000)

R. L. Scott (appointed 26 January 2000)

No director had a beneficial interest in the shares of the company at any time during the year.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

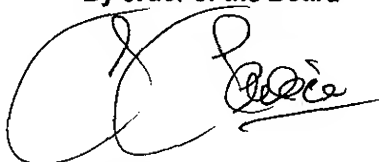
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution will be submitted at the annual general meeting to reappoint Arthur Andersen, Chartered Accountants, as auditors for the ensuing year.

Turnberry Hotel
Ayrshire
KA26 9LT

By order of the Board

A handwritten signature in black ink, appearing to read 'S. Selbie', written over a horizontal line.

S. Selbie
Director

5 November 2001

To the Shareholders of SLC Turnberry Limited:

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen.

Arthur Andersen

Chartered Accountants and Registered Auditors

191 West George Street

Glasgow

G2 2LB

5 November 2001

Profit and loss account

For the year ended 31 December 2000

	Notes	2000 £	1999 £
Turnover	2	11,948,601	11,929,848
Cost of sales		(6,276,564)	(5,885,080)
Gross profit		5,672,037	6,044,768
Other operating expenses (net)	3	(5,313,932)	(4,312,788)
Operating profit		358,105	1,731,980
Net interest payable and similar charges	4	(1,335,444)	(1,442,705)
(Loss)/profit on ordinary activities before tax		(977,339)	289,275
Taxation	7	-	-
Retained (loss)/profit for the year	16	(977,339)	289,275

The company has no recognised gains or losses other than the (loss)/profit for each year.

The current year results have been derived wholly from continuing operations.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet
31 December 2000

	Notes	2000 £	1999 £
Fixed assets			
Tangible assets	8	39,843,702	31,806,400
Investments	9	3,331,020	3,337,974
		<u>43,174,722</u>	<u>35,144,374</u>
Current assets			
Stocks	10	524,185	537,082
Debtors: Amounts falling due within one year	11	1,121,028	716,703
Cash at bank and in hand		403,695	3,181,094
		<u>2,048,908</u>	<u>4,434,879</u>
Creditors: Amounts falling due within one year	12	<u>(10,042,741)</u>	<u>(9,465,142)</u>
Net current liabilities		<u>(7,993,833)</u>	<u>(5,030,263)</u>
Total assets less current liabilities		<u>35,180,889</u>	<u>30,114,111</u>
Creditors: Amounts falling due after more than one year	13	<u>(17,799,996)</u>	<u>(15,715,879)</u>
Net assets		<u>17,380,893</u>	<u>14,398,232</u>
Capital and reserves			
Called-up share capital	15	2	2
Additional paid in capital	16	17,573,674	13,613,674
Profit and loss account	16	(192,783)	784,556
Total capital employed		<u>17,380,893</u>	<u>14,398,232</u>

Signed on behalf of the Board



S. Selbie
Director

5 November 2001

The accompanying notes are an integral part of this balance sheet.

Notes to financial statements
For the year ended 31 December 2000

1 Statement of accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company has elected under Section 229 of the Companies Act 1985 not to consolidate Nitto World Co., Limited as its inclusion is not material for the purpose of giving a true and fair view.

b) Cash flow statement

The company has taken advantage of the exemption in FRS 1 to dispense with the requirement to include a cash flow statement in its financial statements as its results are incorporated into the financial statements of Starwood Hotels and Resorts Worldwide Inc., which are available to the public.

c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment as set out in note 8.

Depreciation on tangible fixed assets is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis using the following annual rates which are based on the expected useful economic lives of the assets:

Buildings	2.5%
Plant and equipment	5% to 50%

Residual value is calculated on prices prevailing at the date of acquisition.

d) Investments

Fixed asset investments are shown at cost less provision for impairment.

e) Stocks

Stocks are stated at the lower of cost and net realisable value.

f) Foreign currency

Transactions denominated in foreign currencies are recorded in sterling at exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

Notes to financial statements (continued)

1 Statement of accounting policies (continued)

g) *Turnover*

Turnover is stated at the invoiced value of goods and services provided, exclusive of VAT and net of discounts granted.

h) *Leases*

Assets acquired under finance leases are initially reported at the fair value of the asset with an equivalent obligation categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Obligations relating to finance leases represent the total of the minimum lease payments outstanding at the date of the balance sheet. Future finance charges are not included. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance.

Rentals under operating leases are charged on a straight-line basis over the lease term. Further information on charges in the year and future commitments is given in note 17.

i) *Taxation*

UK corporation tax is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

j) *Pension contributions*

The company operates a defined benefit pension scheme. Pension contributions are charged to the profit and loss account on the basis of spreading the cost of providing pensions over the period of employees' services to the company. Further information on this scheme is provided in note 17.

Notes to financial statements (continued)

2 Segment information

In the opinion of the directors the company has only one market segment and thus no segmental analysis is provided.

3 Other operating expenses (net)

	2000 £	1999 £
Selling and marketing costs	1,094,620	701,619
Administrative expenses	4,219,312	3,611,169
	<u>5,313,932</u>	<u>4,312,788</u>

4 Interest payable and similar charges

	2000 £	1999 £
Bank interest	14,514	-
On intercompany loans	647,742	543,591
On promissory notes	673,188	899,114
	<u>1,335,444</u>	<u>1,442,705</u>

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation for the year is stated after charging:

	2000 £	1999 £
Depreciation	1,070,181	968,215
Auditors' remuneration		
- audit services	25,000	25,000
- non-audit services	10,000	15,000
Staff costs (note 6)	3,628,859	3,169,459
Hire of plant and machinery		
- under operating leases	<u>85,339</u>	<u>85,353</u>

Notes to financial statements (continued)

6 Staff costs

Particulars of employees are as shown below:

	2000 £	1999 £
Employee costs during the year amounted to:		
Wages and salaries	3,254,884	2,840,846
Social security costs	281,569	217,901
Other pension costs	92,406	110,712
	<u>3,628,859</u>	<u>3,169,459</u>

The average monthly number of persons employed by the company during the year was as follows:

	2000 Number	1999 Number
Administration and management	49	51
Casual	188	233
	<u>237</u>	<u>284</u>

Remuneration

The remuneration of the directors was as follows:

	2000 £	1999 £
Emoluments	<u>123,042</u>	<u>67,829</u>

Pensions

The number of directors who were members of pension schemes was as follows:

	2000 Number	1999 Number
Defined benefit schemes	<u>1</u>	<u>1</u>

7 Taxation

No tax charge arose in either year due to the availability of losses within the group.

Notes to financial statements (continued)

8 Tangible fixed assets

The following are included in the net book value of tangible fixed assets:

	2000 £	1999 £
Freehold land and buildings	36,931,038	29,936,222
Plant and equipment	2,912,664	1,870,178
	<u>39,843,702</u>	<u>31,806,400</u>

The movement in the year was as follows:

	Freehold land & buildings £	Plant & equipment £	Total £
Cost			
Beginning of year	31,435,237	5,450,557	36,885,794
Additions	7,755,492	1,351,991	9,107,483
Disposals	-	(3,242,124)	(3,242,124)
End of year	<u>39,190,729</u>	<u>3,560,424</u>	<u>42,751,153</u>
Depreciation			
Beginning of year	1,499,015	3,580,379	5,079,394
Charge	760,676	309,505	1,070,181
Disposals	-	(3,242,124)	(3,242,124)
End of year	<u>2,259,691</u>	<u>647,760</u>	<u>2,907,451</u>
Net book value			
Beginning of year	<u>29,936,222</u>	<u>1,870,178</u>	<u>31,806,400</u>
End of year	<u>36,931,038</u>	<u>2,912,664</u>	<u>39,843,702</u>

Plant and equipment includes £35,641 (1999 - £71,948) of assets at net book value held under finance leases.

Notes to financial statements (continued)

9 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	2000 £	1999 £
Subsidiary undertakings	<u>3,331,020</u>	<u>3,337,974</u>

The movement during the year was as follows:

	Subsidiary Undertakings £
Cost and net book value	
Beginning of year	3,337,974
Disposal	(6,954)
End of year	<u>3,331,020</u>

The above disposal represents a credit received from the parent company against legal and professional costs which had been capitalised in the prior year.

The above investment represents the company's investment in the following subsidiary undertaking:

	Country of registration	Principal activity	Description & proportion of shares held
Nitto World Co., Limited	England	Non-trading	100% ordinary share capital

Notes to financial statements (continued)

10 Stocks

The following are included in stocks:

	2000 £	1999 £
Glass, crockery and silverware	104,511	128,180
Food and beverage	51,299	88,258
Goods held for resale	308,737	278,621
Other	59,638	42,023
	<u>524,185</u>	<u>537,082</u>

The directors consider that there is no significant difference between the balance sheet value and the replacement cost of stocks at the balance sheet date.

11 Debtors

The following are included in debtors:

	2000 £	1999 £
Amounts falling due within one year:		
Trade debtors	638,463	379,127
Prepayments and accrued income	90,166	137,971
Other debtors	392,399	199,605
	<u>1,121,028</u>	<u>716,703</u>

12 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	2000 £	1999 £
Trade creditors	848,009	1,438,450
Amounts due to other group undertakings	8,046,509	6,588,691
Obligations under finance leases	13,693	36,404
Accruals and deferred income	588,106	774,062
VAT	-	81,111
Intercompany loan	546,424	546,424
	<u>10,042,741</u>	<u>9,465,142</u>

Notes to financial statements (continued)

13 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	2000 £	1999 £
Intercompany loans	10,819,002	9,255,607
Obligations under finance leases	-	13,157
Promissory note	6,980,994	6,447,115
	<u>17,799,996</u>	<u>15,715,879</u>

Interest on the promissory note is charged at 10% per annum. Intercompany loans represents a non-interest bearing loan of £1,700,000 from Sheraton Hotels England Limited and a loan of £9,119,002 from Sheraton Hotels UK Limited. Interest on the loan from Sheraton Hotels UK Limited is charged at libor plus an additional variable margin. At 31 December 2000 the interest was 6.99%.

The loan from Sheraton Hotels England Limited has no fixed repayment terms or maturity date. Repayments are made when funds are available and as a result this loan has been included within intercompany loans due after five years.

Borrowings are repayable as follows:

	2000 £	1999 £
Promissory note		
Between one and two years	<u>6,980,994</u>	<u>6,447,115</u>
Intercompany loans		
Between one and two years	546,424	546,424
Between two and five years	1,639,272	1,639,272
After five years	<u>8,633,306</u>	<u>7,069,911</u>
	10,819,002	9,255,607
On demand or within one year	<u>546,424</u>	<u>546,424</u>
	<u>11,365,426</u>	<u>9,802,031</u>

14 Deferred taxation

No deferred taxation has been provided because the directors have concluded, on the basis of reasonable assumptions and the intentions of management that it is improbable that any liability will crystallise due to significant brought forward tax losses.

Notes to financial statements (continued)

15 Called-up share capital

	2000 £	1999 £
<i>Authorised</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

16 Reserves

Of total reserves shown in the balance sheet, the following amounts are regarded as distributable or otherwise:

	2000 £	1999 £
Distributable		
- profit and loss account	<u>(192,783)</u>	<u>784,556</u>

The movement in the profit and loss account was as follows:

	2000 £	1999 £
At beginning of year	784,556	495,281
(Loss)/profit for financial year	<u>(977,339)</u>	<u>289,275</u>
At end of year	<u>(192,783)</u>	<u>784,556</u>

Reconciliation of movements in shareholders' funds

	2000 £	1999 £
(Loss)/profit for financial year	<u>(977,339)</u>	<u>289,275</u>
Net (decrease)/increase in shareholders' funds	<u>(977,339)</u>	<u>289,275</u>
Additional paid in capital	3,960,000	-
Opening shareholders' funds	<u>14,398,232</u>	<u>14,108,957</u>
Closing shareholders' funds	<u>17,380,893</u>	<u>14,398,232</u>

The additional paid in capital above represents amounts received from Sheraton Hotels England Limited.

Notes to financial statements (continued)

17 Guarantees and other financial commitments

a) Capital commitments

At the end of the year, capital commitments were:

	2000 £	1999 £
Contracted for but not provided for	<u>2,000,000</u>	<u>9,000,000</u>

b) Lease commitments

The company has entered into non-cancellable leases in respect of property, plant and equipment, the payments for which extend over a period of up to 7 years.

The minimum annual rentals under the foregoing leases are as follows:

	2000 £	1999 £
Operating leases which expire		
- within 1 year	85,339	72,071
- within 1-2 years	-	13,282
	<u>85,339</u>	<u>85,353</u>

c) Pension arrangements

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested by independent fund managers.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of valuations using the attained age method.

The pension charge for the year was £92,406 (1999 - £110,712).

The most recent valuation was at 31 December 1999. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment return would be 6.5% per annum, that salary increases would average 4.5% per annum and that present and future pensions would increase at the rate of 3% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £3,512,000 and that the actuarial value of those assets represented 113.9% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The contributions of the company and employees were 17.4% and 9.3% respectively during the year.

Notes to financial statements (continued)

18 Related party transactions

The company is exempt from the requirement of FRS 8 to include details of transactions with other group companies.

19 Ultimate parent company

The immediate parent company is SLC Operating Limited Partnership.

The smallest and largest group in which the results of SLC Turnberry Limited are consolidated, is that headed by Starwood Hotels and Resorts Worldwide Inc. The consolidated financial statements of this group are available to the public at:

Starwood Hotels and Resorts Worldwide Inc.

Investor Relations

1111 Westchester Avenue

White Plains

NY

10604